

LFD Budget Analysis – Updated for December 15, 2008 Executive Budget Revisions

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

5102 Commissioner Of Higher Education Revised Executive Budget Comparison Table							All Programs All SubPrograms	
R02 Budget Version Budget Item	Base FY 2008	Approp FY 2009	Budgeted FY 2010	Budgeted FY 2011	Biennium FY 2008-09	Biennium FY 2010-11	Biennial Change	Biennial Percent
Personal Services	5,763,795	6,889,978	4,410,561	4,418,387	12,653,773	8,828,948	(3,824,825)	-30.2%
Operating Expenses	5,631,549	9,361,880	6,343,010	6,359,312	14,993,429	12,702,322	(2,291,107)	-15.3%
Equipment & Intangible Assets	43,732	18,899	43,732	43,732	62,631	87,464	24,833	39.7%
Local Assistance	8,826,093	9,540,368	9,490,940	9,520,572	18,366,461	19,011,512	645,051	3.5%
Grants	14,526,744	20,019,130	20,415,633	19,820,054	34,545,874	40,235,687	5,689,813	16.5%
Benefits & Claims	25,034,673	59,399,808	32,073,189	35,908,489	84,434,481	67,981,678	(16,452,803)	-19.5%
Transfers	169,519,888	181,652,716	183,576,918	184,106,402	351,172,604	367,683,320	16,510,716	4.7%
Total Costs	229,346,474	286,882,779	256,353,983	260,176,948	516,229,253	516,530,931	301,678	0.1%
General Fund	170,167,847	186,280,601	182,035,240	184,764,463	356,448,448	366,799,703	10,351,255	2.9%
State/other Special Rev. Funds	18,154,607	17,031,878	20,983,129	19,281,178	35,186,485	40,264,307	5,077,822	14.4%
Federal Spec. Rev. Funds	40,929,549	83,459,942	53,244,819	56,042,166	124,389,491	109,286,985	(15,102,506)	-12.1%
Proprietary Funds	94,471	110,358	90,795	89,141	204,829	179,936	(24,893)	-12.2%
Total Funds	229,346,474	286,882,779	256,353,983	260,176,948	516,229,253	516,530,931	301,678	0.1%

Agency Description

The Office of the Commissioner of Higher Education (OCHE) is the state-level administrative organization of the Montana University System (MUS). The Montana Constitution, Article X, Section 9, grants governance authority over the MUS to the Board of Regents (Regents), with seven members appointed by the Governor. The Constitution charges the Regents with hiring a Commissioner of Higher Education (CHE) who serves as its executive staff.

All state funds appropriated by the legislature to the Regents for the support of the MUS are channeled through OCHE.

The Montana University System is comprised of:

- o The Board of Regents
- o The Commissioner of Higher Education, his/her staff, and several system-wide programs administered from the Office of the Commissioner of Higher Education
- o The University of Montana, with:
 - Four-year campuses in Missoula, Butte, and Dillon
 - Two-year college of technology campuses in Missoula, Butte, and Helena
 - Two research/public service agencies in Missoula and Butte
- o Montana State University, with:
 - Four-year campuses in Bozeman, Billings, and Havre
 - Two-year college of technology campuses in Billings and Great Falls
 - Three research/public service agencies in Bozeman and Great Falls
- o Two-year community colleges in Kalispell, Glendive, and Miles City. Governance of the community colleges is divided between the Regents and the local board of trustees of each community college district

Since the 1995 legislative session, the legislature has combined the appropriation for the university educational units (all campuses of Montana State and the University of Montana) and most of OCHE into a single, lump-sum appropriation. Thus, the legislature determines the size of this budget, but the Regents make the ultimate funding allocations to the various educational units and campuses.

Agency Highlights

Montana University System Major Budget Highlights
<ul style="list-style-type: none"> ◆ Overall, the executive budget increases the Montana University System budget in the 2011 biennium by \$0.3 million, a 0.1 percent increase from the 2009 biennium <ul style="list-style-type: none"> • State funds (general fund and state special revenue) increase \$15.4 million in the 2011 biennium • Federal and other funds decrease \$15.1 million in the 2011 biennium ◆ In dollar terms, the majority of the general fund increase goes toward funding a portion of the present law cost increases at the educational units and research/public service agencies but in percentage terms, the largest general fund increase (12.7 percent) goes toward student assistance programs ◆ The executive budget increases state funds for community college assistance by \$608,000 from the 2009 to the 2011 biennium ◆ The College Affordability Plan, which resulted in a resident tuition rate freeze at the MUS education units for both years of the 2009 biennium, is not continued in the executive budget in the 2011 biennium
Major LFD Issues
<ul style="list-style-type: none"> ◆ Significant funding policy change proposed for MUS educational units and research/public service agencies may impact future tuition levels and/or service delivery ◆ The Governor's proposed revisions for the MUS educational units and research/public service agencies fund some required present law adjustments at historically low levels, or not at all ◆ Given that the executive budget proposal is based upon public policy decisions, rather than statutory formulas, the legislature may want to consider other funding levels for the MUS educational units and/or community colleges to address concerns about access and affordability of higher education ◆ Bitterroot Valley Community College will need a legislative appropriation if the legislature passes the joint resolution (SJ 12) forming the new community college district ◆ The legislature may want to consider funding additional dental slots in WICHE as recommended by the interim legislative Postsecondary Education Policy and Budget Subcommittee resulting from an interim study, but excluded in the executive budget ◆ The legislature may want to consider monitoring the progress of implementing a two year education structure or system in Montana during the 2011 biennium ◆ The executive budget does not use the statutory formula to develop the state appropriation recommendation for community colleges

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

Goals and Objectives from the 2009 Biennium

The following provides an update in the major goals monitored during the 2009 interim.

Goal #1 – Increase Educational Attainment of Montanans -- Promote education affordability in the MUS for Montana resident students as measured by:

- o Freezing resident tuition rates at the MUS educational units at the FY 2007 level for FY 2008 and FY 2009
- o Increasing the amount of state support as a percentage of total personal income, relative to peer states and historical levels
- o Decreasing tuition as a percentage of median household income

Success: Resident tuition rates at the MUS educational units were frozen at the FY 2007 level for both years of the 2009 biennium

Goal #2 – Increase Educational Attainment of Montanans -- Make higher education more affordable by offering more need-based financial aid grants and scholarships as measured by:

- o Percentage of students who receive financial aid
- o Average state funded aid/scholarship award amount
- o Amount of “unmet” student need

Challenges: State funding for need-based aid is about 53 percent of the regional average. The amount of unmet student need for financial aid in Montana (defined as the cost of attendance minus the expected family contribution and average aid award to eligible students) is about \$10,200 per student eligible for financial aid, or about \$70 million for the number of Pell grant recipients in FY 2007.

Goal #3 – Improve Institutional System Efficiency and Effectiveness - Improve the transferability of student credits/coursework between the campuses of the MUS (including the community colleges) as measured by:

- o Implementation of common course numbering
- o Development of a centralized, web-based computer program to demonstrate transferability of courses throughout the MUS

Success: The MUS projects 12 disciplines will complete common course numbering by January 2009 and 10 additional disciplines will complete common course numbering by June 2009.

Success: The MUS has developed a computer program that demonstrates transferable courses across the university system and the website will go live on January 1, 2009.

Challenges: This initiative will take two biennia to fully implement. All remaining disciplines are projected to have common course numbering implemented by June 2011.

Goal #4 – Increase Educational Attainment of Montanans -- Improve distance and online learning by coordinating online delivery of education across the MUS as measured by:

- o The number of students enrolled in distance learning education courses
- o The number of distance learning courses and programs offered
- o The number of distance learning programs for career training students and employers

Success: The MUS established a target of a 10 percent increase for each of the measurements listed. The number of students enrolled increased 26 percent from Fall 2006 to Fall 2007, the number of online courses and programs offered increased 19 percent from Fall 2006 to Fall 2007, and the number of workforce development degree programs and certificates offered increased 9 percent from Fall 2006 to Fall 2007.

Goals and Objectives and the 2011 Biennium Budget

In July 2006, the Montana Board of Regents adopted a comprehensive strategic plan intended to define goals and set the priorities for higher education in the state of Montana. The Regents approved an update to the strategic plan in July 2008. This strategic plan is posted on the Regents' website at: http://mus.edu/data/Strategic_plan_final_Oct2008.pdf

The strategic plan is anchored by three overarching, fundamental goals for the university system, including:

- o Increase educational attainment of Montanans
- o Assist in the expansion and improvement of the economy
- o Improve institutional efficiency and effectiveness

This plan describes strategic initiatives the MUS will undertake to achieve each goal and measurable objectives to evaluate progress toward each goal. It is apparent that this strategic plan is intended to apply to each university unit and all programs under the control of the Regents and the commissioner of higher education. The Postsecondary Education Policy and Budget Subcommittee (PEPB) of the Education and Local Government interim legislative committee has also endorsed these goals and measurable objectives (accountability measures).

Increase Educational Attainment of Montanans -- Two Year Education

Both the Board of Regents and the PEPB dedicated a large portion of their work during the 2007-08 interim on increasing enrollment in two year education and developing a two year education structure or system in Montana. The 2009 Legislature will decide whether to approve the formation of a new community college district in Ravalli County, Montana. The formation of a two year education structure or system in Montana, as well as strategies to increase postsecondary enrollment in two year education, falls under the overarching goal to increase educational attainment of Montanans.

The legislature may wish to include two year education as one area to monitor during the 2009-10 interim. See the discussion in the Workforce Development Program later in this narrative for more specific information.

Increase Educational Attainment of Montanans -- Access and Affordability

The goal of promoting education affordability for Montana resident students was addressed in the 2009 biennium by the College Affordability Plan (CAP) that resulted in a resident tuition rate freeze for both years of the 2009 biennium. The executive budget does not continue the CAP into the 2011 biennium. One potential impact of discontinuing the CAP is that tuition rates will increase in the 2011 biennium.

The legislature may want to monitor the measurable objectives identified in the Board of Regents 2008 Strategic Plan for this goal, including:

- o Specific tuition guidelines
- o State support as a percentage of total personal income
- o Tuition as a percentage of median household income

This goal is discussed in more detail in the Appropriation Distribution Program.

Deliver Efficient and Coordinated Services – Common Course Numbering

As noted in the previous section, the transferability initiative funded by the 2007 Legislature and implemented by the Board of Regents during the 2009 biennium will take two biennia to implement. Transferability has been an area of significant interest by the legislature for many years. The executive budget continues base funding for the transferability initiative totaling \$535,000 in the 2011 biennium.

The legislature may wish to continue to monitor this goal during the 2011 biennium as the MUS completes its initial effort toward common course numbering and improving transferability for students.

Impact of Proposed Executive Budget

The impact of general fund spending in the executive budget is illustrated in the figure below, which demonstrates the funding levels for each of the major functional areas of the MUS and shows the percent change from the 2009 biennium. As the table illustrates, the overall increase in general fund and other state revenue spending for the 2011 biennium is \$15.4 million, a 3.9 percent increase. The most significant biennial increases occur in the following programs:

- The Governor's Postsecondary Scholarship program increases by \$960,000 and is projected to provide awards to 3,580 students in the 2011 biennium, up from 3,137 students in the 2009 biennium
- The WICHE/WWAMI/MN Dental program increases \$1.1 million in the 2011 biennium due to rising tuition rates at participating universities
- The Teacher Loan Forgiveness Program increases by \$1.12 million and is projected to provide awards to 100 additional recipients each year of the 2011 biennium
- University educational units receive a \$12.3 million biennial increase, which primarily funds present law adjustments through FY 2009
- Community colleges receives a \$0.6 million increase

Montana University System - Impact of 2011 Biennium Executive Budget Across Functional Areas General Fund and State Special Revenue Only -- December 15, 2008 Revisions					
Budget Item	Base FY 2008	Appropriated FY 2009	Exec. Budget FY 2010	Exec. Budget FY 2011	% Change 09-11 Bien.
Education Services					
University Educational Units	\$142,509,931	\$153,344,611	\$153,871,626	\$154,296,627	4.2%
Resident Student Enrollment	26,278	26,756	26,756	26,756	0.9%
State Funds/Student	\$5,423	\$5,731	\$5,751	\$5,767	3.3%
Community College Assistance	\$8,710,093	\$9,420,368	\$9,357,033	\$9,381,679	3.4%
Resident Student Enrollment	2,059	2,224	2,219	2,219	3.6%
State Funds/Student	\$4,230	\$4,236	\$4,217	\$4,228	-0.3%
Tribal College Assistance	\$450,002	\$450,000	\$450,002	\$450,002	0.0%
Non-Beneficiary Students	301	302	302	302	0.2%
State Funds/Student	\$1,493	\$1,488	\$1,488	\$1,488	-0.2%
Research/Public Service Agencies	\$22,371,944	\$23,220,095	\$22,650,967	\$22,732,247	-0.5%
Miscellaneous System Transfers	\$664,366	\$664,366	\$719,366	\$719,366	8.3%
Student Grants/Assistance					
WICHE/WWAMI/MN Dental	\$5,057,719	5,382,581	\$5,634,971	\$5,863,845	10.1%
Number of Students	165	169	169	170	1.5%
State Funds/Student	\$30,653	\$31,850	\$33,343	\$34,493	8.5%
Gov's Postsecondary Scholarships	\$1,507,000	\$2,533,000	\$2,500,000	\$2,500,000	23.8%
Number of Students	1,336	1,801	1,790	1,790	14.1%
State Funds/Student	\$1,128	\$1,406	\$1,397	\$1,397	10.2%
Baker Grants	\$2,018,775	\$2,018,775	\$2,018,775	\$2,018,775	0.0%
Number of Students	2,431	2,444	2,440	2,440	0.1%
State Funds/Student	\$830	\$826	\$827	\$827	-0.1%
Montana Higher Education Grants	\$508,414	\$498,747	\$508,414	\$508,414	1.0%
Number of Students	975	974	970	970	-0.5%
State Funds/Student	\$521	\$512	\$524	\$524	1.4%
State Work Study Program	\$862,989	\$862,989	\$862,989	\$862,989	0.0%
Number of Students	773	780	780	780	0.5%
State Funds/Student	\$1,116	\$1,106	\$1,106	\$1,106	-0.5%
State Match to Federal Grants	\$656,211	\$665,878	\$656,211	\$656,211	-0.7%
Number of Students	2,726	2,860	2,860	2,860	2.4%
State Funds/Student	\$241	\$233	\$229	\$229	-3.1%
Teacher Loan Forgiveness Program	\$307,280	\$676,175	\$900,000	\$1,200,000	113.5%
Number of Recipients	104	200	300	400	130.3%
State Funds/Recipient	\$2,955	\$3,381	\$3,000	\$3,000	-5.3%
Administration/Special Programs	\$2,697,730	\$3,574,893	\$2,888,015	\$2,855,486	-8.4%
Total General Fund & State Special Rev.	<u>\$188,322,454</u>	<u>\$203,312,478</u>	<u>\$203,018,369</u>	<u>\$204,045,641</u>	<u>3.9%</u>
Sources: SABHRS FY 2009 ongoing appropriations; student service data from OCHE, November 2008 FY 2008 Actual and 2011 Biennium Executive Budget from MBARS					

Governance and Legislative Appropriations Authority

Although the Board of Regents is organizationally placed in the Executive Branch, the Montana Constitution grants the Regents broad governing authority over the Montana University System (MUS). Article X, Section 9, of the Montana Constitution provides “the government and control of the Montana University System is vested in the Board of Regents,

which shall have full power, responsibility, and authority to supervise, coordinate, manage, and control the...system.” The powers and duties of the seven-member Board of Regents are further described in 20-25-301, MCA.

On the other hand, while the Montana Constitution grants governance authority to the Regents, the power to appropriate state funds remains with the legislature. The Montana University System receives funding from a variety of government sources, including state general fund and revenue from the six-mill property tax levy. These funds must be appropriated by the legislature. With this “power of the purse” typically comes the authority to attach policy decisions to the funding.

The product of higher education is, for the most part, the delivery of services to private individuals who pay directly for these services in a contractual manner. So the university system is also supported with “private revenue” that individuals contract for, specifically tuition for educational instruction, residence hall fees for housing, meal allowance for food service, ticket prices for athletic and arts events, etc. The legislature does not have any appropriations authority over these private revenue funds that go to the university system.

Within this constitutional configuration and diverse revenue sources, therefore, a tension exists between Regents’ autonomy that comes with governance authority and the power that comes from the legislative appropriation of state funds. Through a series of legal decisions, this tension has been reconciled as follows:

- o The Montana legislature cannot do indirectly, through fiscal appropriation, what it is not permitted to do directly by the Constitution. In other words, the appropriation of state funds cannot be used to blatantly drive university governance policy, as governance is the constitutional role of the Board of Regents
- o Legislative appropriation power does not extend to private funds received by state government that are restricted by law, trust agreement, or contract, such as student tuition and the other fees listed above
- o Legislative appropriation power does, however, allow the legislature to establish requirements that the university system must comply with, including audit, accounting, and other fiscal accountability measures
- o The legislature also may establish conditions on appropriated funds and, if the Board of Regents accepts the funds, then it also accepts those conditions

(**Source:** For more information about this Constitutional structure and history, see *The Structure of Higher Education in Montana: Meandering the Murky Line*, Montana Legislative Services Division, September 1999. Memo available at: <http://leg.state.mt.us/content/publications/services/legal/opinions/regents.pdf>)

Postsecondary Education Policy and Budget Subcommittee

During the 2007-08 interim the Postsecondary Education Policy and Budget Subcommittee (PEPB) of the Education and Local Government (ELG) interim legislative committee studied a wide spectrum of higher education issues and made recommendations summarized below.

HJR 22 Interim Study

The PEPB conducted the study requested by HJR 22, passed by the 2007 Legislature. This study resolution requested that an interim committee study repayment programs and other incentives to support access to dental care in the state, with an emphasis on rural areas. One of the recommendations resulting from the study that received unanimous support from the ELG was to expand the number of dental slots in the professional student exchange program by five slots per year.

The PEPB and ELG also supported study recommendations for other mechanisms to improve dental care in rural areas, including creation of a dental student loan repayment program administered through OCHE and creation of a dental clinic extension program administered through MSU Bozeman. These recommendations would require specific legislation and are contained in a committee bill (HB 96) that will be introduced in the 2009 session.

The executive budget does not include additional funding to implement any of the recommendations of the HJR 22 study.

College Affordability Plan

At its September 2008 meeting, the PEPB voted unanimously to recommend to the Governor and the Board of Regents that the College Affordability Plan (CAP) continue through the 2011 biennium if sufficient state revenue was available. As noted previously, the executive budget does not continue the CAP into the 2011 biennium.

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

Market Rate

- o The agency does not use the broadband pay plan.
- o About 80 percent of the agency's employees are covered by a university system classification and pay plan that does not use a singular market statistic or market ratio.
 - Low entry wage is 90 percent of the average wage for the same job among the lowest-paying one-quarter of Montana employers (75 percent of Montana employers pay higher). The high entry wage, on average, is about 115 percent of the low entry, near the 25th percentile average.
 - The average wage for current classified employees, who average about 9 years of service, is about 80 to 85 percent of the average Montana wage for the same job.
- o About 20 percent of the agency's employees are not covered by any classification and pay plan, but rather, are employed and paid under terms negotiated into individual employment contracts that last one year in duration and may be renewed or non-renewed at the agency's discretion.
 - The average salary is approximately 70 percent of the average for state institutional higher education administration offices nationwide, but the market statistic does not drive pay philosophy.
 - MUS contract professionals and administrators never obtain a legal property interest in (or rights to) their employment beyond the term of their annual contract. Property interest rights have a value, and not all state higher education systems operate similarly.

Vacancy

- o The MUS has seen slippage in its ability to recruit and retain capable employees as its current pay scales are declining in their market competitiveness.
- o Any additional resources like those requested in the salary initiative (but not included in the proposed executive budget) would be spent toward strategic pay adjustments to recruit and retain top performers instead of diluting the resources through across-the-board market ratio adjustments.
- o Agency funding sources is the largest obstacle in implementing merit and market pay plans.
- o Vacancies of qualified and experienced staff create a backlog of work and loss of experience which results in challenges to productivity, quality, and quantity of work.

Legislatively Applied Vacancy Savings

- o Vacancy savings is addressed the majority of the time by keeping positions open long enough to cover the vacancy savings necessary.

Pay Changes

- o For employees on the university system classified pay plan, the agency provided an across-the-board increase of 3.6 percent because recruitment-and-retention pressures (market pressures) were experienced similarly across all job categories.
- o For "non-classified" employees who are covered by annual individual employment contracts, the agency varied the 3.6 percent funding on the basis of performance or market, ranging from no raise for one employee to a high of 4.6 percent for the largest raise.

Retirements

- o Twelve employees in OCHE will be eligible for full retirement during the 2011 biennium, with pay out cost estimates ranging from \$200,000 to \$400,000 and funded primarily from general fund. Four employees retired during the 2009 biennium.
- o The department does anticipate retirements during the 2011 biennium and will recruit for replacements after keeping the positions open long enough to cover termination payouts that are not budgeted or funded and, therefore, must be paid for when incurred.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2011 Biennium Budget-December 15, 2008 Revisions						
Program Name	General Fund	State Spec	Fed Spec	Proprietary	Grand Total	Total %
01 Administration Program	\$4,997,554	\$0	\$539,807	\$179,936	\$5,717,297	1.1%
02 Student Assistance Program	26,814,669	199,889	386,612	0	27,401,170	5.3%
03 Improving Teacher Quality	0	0	447,584	0	447,584	0.1%
04 Community College Assistance	18,738,712	0	0	0	18,738,712	3.6%
06 Educational Outreach & Diversity	142,595	0	12,668,319	0	12,810,914	2.5%
08 Work Force Development Pgm	180,127	0	12,664,890	0	12,845,017	2.5%
09 Appropriation Distribution	314,925,781	40,064,418	0	0	354,990,199	68.7%
11 Tribal College Assistance Pgm	900,004	0	0	0	900,004	0.2%
12 Guaranteed Student Loan Pgm	0	0	82,579,773	0	82,579,773	16.0%
13 Board Of Regents-Admin	<u>100,261</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>100,261</u>	<u>0.0%</u>
Grand Total	\$366,799,703	\$40,264,307	\$109,286,985	\$179,936	\$516,530,931	100.0%

Statutory Appropriations

The following figure shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Montana University System					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<u>No Direct Bearing on Agency Operations</u>					
Establish/maintain Montana travel research program (at UM Missoula)	15-65-121	GF	\$0	\$0	\$0
		SSR	386,076	485,468	506,934
		Federal	<u>0</u>	<u>0</u>	<u>0</u>
		Subtotal	<u>\$386,076</u>	<u>\$485,468</u>	<u>\$506,934</u>
<u>Direct Bearing on Agency Operations</u>					
Pay admin costs of rural physician incentive program and educational debt of certain rural physicians	20-26-1503	GF	\$0	\$0	\$0
		SSR	194,101	220,000	220,000
		Federal	<u>0</u>	<u>0</u>	<u>0</u>
		Subtotal	<u>\$194,101</u>	<u>\$220,000</u>	<u>\$220,000</u>

The statutory appropriation for travel research is state special revenue from an allocation of the 4 percent lodging facility use tax. The funds are distributed to the University of Montana through the Office of the Commissioner of Higher Education.

The statutory appropriation for the rural physician incentive program is state special revenue from fees assessed to students preparing to be physicians in the field of medicine or osteopathic medicine who are supported by the state pursuant to an interstate compact for a professional education program in those fields. The assessment may not exceed 16 percent of the annual support fee paid by the state and may be used only to pay the educational debts of physicians who practice in rural or underserved areas and administrative costs of the program.

Budget Summary by Category

The following summarizes the original executive budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	170,167,847	170,167,847	340,335,694	89.23%	229,346,474	229,346,474	458,692,948	84.94%
Statewide PL Adjustments	(22,643)	(57,051)	(79,694)	(0.02%)	745,330	695,799	1,441,129	0.27%
Other PL Adjustments	18,720,778	20,597,718	39,318,496	10.31%	36,043,286	42,081,508	78,124,794	14.47%
New Proposals	916,339	916,372	1,832,711	0.48%	866,339	866,372	1,732,711	0.32%
Total Budget	\$189,782,321	\$191,624,886	\$381,407,207		\$267,001,429	\$272,990,153	\$539,991,582	

Agency Issues

State Percent Share and the Historical Impact on the University Educational Units

One of the budget formulas historically used to determine the state general fund appropriation for the university system is the state percent share formula. The historic state percent share formula is calculated as the percent of state funds appropriated for the university educational units to the total funds (e.g. state funds, tuition, interest earnings) budgeted for general operations at the university educational units and approved by the Board of Regents.

Essentially, this state percent share formula has been used to set the state share of funding of present law adjustments for the university educational units as well as determine the state share of funding for whatever pay plan is approved by the legislature. The figure below illustrates ten years of history of the funding mix for the university educational units and the trends for the various revenue sources, including the state percent share.

Historical Funding and State Percent Share - Educational Units Only Montana University System Fiscal Years 2000 - 2009											
Budgeted Revenue by Source	FY 2000 Budgeted	FY 2001 Budgeted	FY 2002 Budgeted	FY 2003 Budgeted	FY 2004 Budgeted	FY 2005 Budgeted	FY 2006 Budgeted	FY 2007 Budgeted	FY 2008 Budgeted	FY 2009 Budgeted	Annual Percent Change
General Fund	\$ 94,922,977	\$ 95,844,703	\$104,849,450	\$101,347,323	\$107,186,837	\$101,381,233	\$111,395,004	\$112,552,060	\$125,093,960	\$138,977,163	4.33%
Student Tuition	108,577,974	112,934,296	120,897,552	147,022,505	158,086,393	172,721,055	188,215,243	206,049,651	204,832,437	204,032,754	7.26%
Six-Mill Levy	14,809,000	15,280,000	11,868,912	12,036,912	12,235,000	12,362,999	13,385,001	13,679,000	17,565,323	16,369,436	1.12%
Other	2,313,795	2,504,907	3,002,673	2,970,384	5,946,357	6,355,565	2,558,151	2,007,205	3,965,741	2,136,468	-0.88%
Total	\$220,623,746	\$226,563,906	\$240,618,587	\$263,377,124	\$283,454,587	\$292,820,852	\$315,553,399	\$334,287,916	\$351,457,461	\$361,515,821	5.64%
Total State Support	109,731,977	111,124,703	116,718,362	113,384,235	119,421,837	113,744,232	124,780,005	126,231,060	142,659,283	155,346,599	3.94%
State Percent Share	49.7%	49.0%	48.5%	43.1%	42.1%	38.8%	39.5%	37.8%	40.6%	43.0%	-1.61%
Sources: BOR Operating Budgets (Summary of Funding) FY 1988 - 1995 OCHE Submission to Legislative Audit Division (Cost of Education Historical Summary) FY 1996-2006 2007 - 2009 MBARS excluding OTO appropriations and Misc Sub-Programs											

As the figure above illustrates, since FY 2000 student tuition has been the fastest growing revenue source for the university educational units, growing at about 7.3 percent per year, while overall state support has been growing 3.9 percent per year. In the meantime, the state percent share has gone from 49.7 percent in FY 2000 to 43.0 percent in FY 2009.

In the 2009 biennium, the executive recommended, and the legislature endorsed, a policy change to not use this historic state percent share formula to determine the level of present law adjustments for the university educational units. Rather, the formula proposed by the executive to establish the state percent share of funding for cost increases was calculated as the ratio of Montana resident and the regional exchange students in the Western Undergraduate Exchange Program (WUE) students as a percentage of total student enrollment at university unit campuses. This ratio was calculated at 84.7 percent for the base year (FY 2006) and was used as the state percent share of funding that was applied to the major budget and funding bills in the 2007 session. This policy change was significant as the historic state share formula that would have been used in the 2009 biennium was 39.5 percent.

In the 2011 biennium, the executive funds present law cost increases at the educational units from FY 2008 to FY 2009 with the state percent share used by the 2007 Legislature. For present law increases between FY 2009 and FY 2011, the executive recommendation results in an overall average state percent share of 5.5 percent.

This formula and the impact upon the budget are discussed in Program 09, Appropriation Distribution.

University Tuition and Mandatory Fee Rates

The figure below illustrates the mandatory tuition and fee rates for the various educational institutions of the Montana University System, specifically the four-year degree and two-year degree schools, as well as the three community colleges.

Montana University System Resident Student Tuition and Mandatory Fee Rates for Educational Units and Community Colleges (1998 - 2008)													
Campus Type	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Annual Average Increase	Overall Increase
Four-year Campuses	\$2,629	\$2,834	\$2,952	\$3,062	\$3,428	\$3,956	\$4,124	\$4,500	\$4,942	\$5,331	\$5,404	7.5%	105.6%
Two-year Campuses	2,049	2,228	2,274	2,288	2,522	2,670	2,710	2,932	3,036	3,137	3,181	4.5%	55.2%
Community Colleges	1,423	1,473	1,605	1,619	1,797	1,891	2,122	2,318	2,502	2,744	3,079	8.0%	116.4%
Source: Montana University System - Inventory and Validation of Fees Report (1997-2007); OCHE (2008)													
Four-year and Two-year campuses use weighted-average...Community Colleges use average rates													

As this figure demonstrates, the tuition and mandatory fee rates paid by Montana students for postsecondary education have increased at a steady rate since 1998. The increase between FY 2007 and FY 2008 for the 4 year and 2 year campus types is attributable to mandatory fee increases. Per the CAP agreement, tuition rates did not increase at the 4-year and 2-year units. However, both tuition and mandatory fees increased at community colleges between FY 2007 and FY 2008. The community colleges were not part of the CAP program in the 2009 biennium.

Long Range Building Program Funding

Long Range Building Program cash funds are appropriated in HB 5 rather than in HB 2. The figure below illustrates that the 2011 biennium executive budget proposes that the Montana University System receive \$3.6 million long range building program cash funding, \$0.60 million state building energy conservation program funds, and authorization for \$7.0 million non-state university funds for four projects across the campuses and research/public service agencies.

Long Range Building Program - 2011 Biennium Montana University System (MUS) December 15, 2008 Executive Recommendations - Cash Projects							
Executive Ranking of 60 Projects	Project	Long Range Building Program Funds	State Building Energy Conservation Program Funds	State Special Funds	Federal Special Funds	University Other Funds	Total
1	Energy Conservation Improvements, MUS	\$7,000,000	\$7,600,000			\$4,500,000	\$19,100,000
12	Energy Projects at Community Colleges		\$600,000				600,000
22	Code/Deferred Maintenance, MUS	3,600,000				1,000,000	4,600,000
32	Renovate Hagener Science Center, MSU-N	2,150,000					2,150,000
44	General Spending Authority - UM	0				6,000,000	6,000,000
	Total	\$3,600,000	\$600,000	\$0	\$0	\$7,000,000	\$11,200,000

This information is presented in this section for information purposes only but for more information and detail about the Long Range Building Program see Section F of the Legislative Budget Analysis 2011 Biennium.

LFD Budget Analysis – Updated for December 15, 2008 Executive Budget Revisions

Program Budget Comparison

See page 11 of LFD Budget Analysis Addendum for Program Budget Comparison table that reflects the December 15, 2008 Executive Budget.

Program Description

The Community College Assistance program distributes funds appropriated by the legislature to support Montana's three community colleges:

- o Dawson Community College located in Glendive
- o Flathead Valley Community College located in Kalispell and Libby
- o Miles Community College located in Glendive

Each community college district has an elected board of trustees who have governance authority over the college, but the trustees are subject to the supervision of the Board of Regents, as directed by Title 20, Chapter 15, MCA.

The funding formula and methodology for the state general fund appropriation to the community colleges is outlined in statute at 20-15-312, MCA. The general operating budgets of the community colleges are funded from a state general fund appropriation, student tuition and fees, a mandatory property tax levy, an optional voted levy, and other miscellaneous revenue funds. Only the state general fund appropriation is appropriated in HB 2.

Program Highlights

Community College Assistance Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The executive recommends stable funding ◆ The executive uses "base plus" budget approach rather than statutory funding formula <ul style="list-style-type: none"> • Resident enrollment is projected to increase 3.7 percent over the 2011 biennium • The executive recommends no resident tuition rate increases • The executive budget is not FTE-driven, so no enrollment reversion is required for the 2011 biennium 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Bitterroot Valley Community College will need a legislative appropriation if the legislature passes the joint resolution forming the new community college district ◆ The executive uses a different funding methodology than the methodology required in statute 	

Program Narrative*Statutory Funding Formula*

The general fund appropriation level is determined, as defined by statute, by the three-factor funding formula that is a calculation of the cost of education, the resident student enrollment level, and the state percent share of funding that is determined by the legislature as a matter of public policy.

This formula is stated mathematically and the factors are defined as follows:

$$[(\text{Projected Student Enrollment} \times \text{Variable Cost of Education per Student}) + \text{Fixed Cost of Education}] \times \text{State Percent Share} = \text{State General Fund Budget}$$

- Projected Student Enrollment -- the aggregated FTE count that the three colleges project for each year of the proposed biennial budget
- Variable Cost of Education per Student -- the total variable costs for the base year divided by the actual FTE student enrollment for the base year (both derived from base-year CHE 201 form)
- Fixed Cost of Education -- the total fixed costs for the base year (derived from base-year CHE 201 form)
- State Percent Share -- the percent of the CHE 201 derived fixed + variable costs calculation that the legislature decides, as a matter of public policy, to support with a state appropriation. The state percent share factor is the mechanism through which the legislature exercises public policy in this formula, as the percent level established is purely a matter of the public policy decision the legislature makes based upon available state revenue and the amount of funding the legislature determines that state government should support Montana resident students attending community colleges

The total cost of education is rebased each biennium from the actual base year expenditures reported by the community colleges in the annual operating budgets submitted to and approved by the Montana Board of Regents. These base year expenditures are adjusted for one-time-only expenditures, such as the additional \$450,000 annual appropriation approved by the 2007 Legislature for the 2009 biennium.

Using this funding formula, the community college resident student enrollment projections for 2,219 FTE in both FY 2010 and FY 2011, the FY 2008 base year actual adjusted expenditures that establish a variable cost of education per FTE student at \$2,194, and a total fixed cost of education at \$14.5 million, the state appropriation for community college assistance is \$19.1 million in the 2011 biennium as the table below illustrates:

Community College Assistance Program - Calculation of General Fund Appropriation for the 2011 Biennium									
Using Statutory Funding Formula									
Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio									
Budget Item Factors	Fiscal Year 2010				Fiscal Year 2011				Total Biennial Approp.
	Dawson	Flathead Valley	Miles	Total	Dawson	Flathead Valley	Miles	Total	
Projected Resident Student FTE	372	1,435	412	2,219	372	1,435	412	2,219	
Fixed Cost of Education	\$2,540,823	\$8,373,977	\$3,613,378	\$14,528,178	\$2,540,823	\$8,373,977	\$3,613,378	\$14,528,178	
Variable Cost of Education per FTE	\$2,194	\$2,194	\$2,194	\$2,194	\$2,194	\$2,194	\$2,194	\$2,194	
State % Share of Cost of Education	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	
Calculated Total Funding Budget	\$1,654,997	\$5,680,527	\$2,227,032	\$9,562,555	\$1,654,997	\$5,680,527	\$2,227,032	\$9,562,555	\$19,125,111
DP 401 - Legislative Audit**	\$13,040	\$15,893	\$11,818	\$40,751					\$40,751
Total General Fund Budget	<u>\$1,668,037</u>	<u>\$5,696,420</u>	<u>\$2,238,850</u>	<u>\$9,603,306</u>	<u>\$1,654,997</u>	<u>\$5,680,527</u>	<u>\$2,227,032</u>	<u>\$9,562,555</u>	<u>\$19,165,862</u>

** Biennial appropriation is included for comparison purposes with proposed executive budget

This total compares to a 2009 biennial total of \$18.1 million.

Comparison to Executive Budget Recommendation

Using the data and assumptions noted above, the legislative funding formula generates a biennial general fund appropriation that exceeds the executive budget recommendation by approximately \$386,000, or two percent.

The legislative funding formula is student FTE-driven. Therefore, the enrollment reversion requirements included in Section 17-7-142, MCA would apply and appropriate language specifying the variable cost of education per FTE would need to be added to the general appropriations act.

Public Policy

The public policy choice for the legislature is to establish the state share percentage it determines is appropriate based upon available state revenue and the amount of funding the legislature determines that state government should support Montana resident students attending community colleges. Using the fiscal and student FTE data in the funding formula for the 2011 biennium, each one percent change in state share impacts the calculated biennial general fund appropriation by approximately \$388,000.

LFD COMMENT

Executive Budget Uses Different Budget Methodology

The executive developed its community college assistance funding proposal using a “base + inflation” methodology (similar to the Montana University System educational units and public service agencies) rather than the statutory formula.

The executive projected the total cost of education for the 2011 biennium by starting with base year actual adjusted expenditures reported by the community colleges in the annual operating budgets submitted to and approved by the Montana Board of Regents. Inflationary increases are included for operating expenses and merit/market adjustments are included for personal services costs. The executive budget estimates the total cost of education (general operating budgets) for the community colleges in the 2011 biennium will be \$42.7 million, about a 5 percent increase from the 2009 biennium.

The general operating budgets of the community colleges are funded from state general fund, student tuition and fees, local tax and non-levy revenue support, and other miscellaneous revenues. To estimate the state general fund appropriation, the executive budget projected revenue from non-state sources first and balanced the revenue requirements with general fund. In estimating the non-state revenue, the executive assumed:

- Miscellaneous and local tax and non-levy revenue would increase 1.6 percent each year of the 2011 biennium from the FY 2009 projection
- Resident tuition rates and tuition waivers would not increase
- Non-resident tuition revenue would increase about 1 percent in FY 2010 and 1.1 percent in FY 2011

The general fund appropriation recommended by the executive for the community colleges in the 2011 biennium, totaling \$18.7 million, is shown by community college on the table below

Community College Assistance Program -- 2011 Biennium Executive Budget Proposal (December 15, 2008 Revision)										
	Base	Approp	State Share	New	Executive	State Share	New	Executive	2011	2011
	FY 2008	FY 2009	Present Law	Proposals	Budget	Present Law	Proposals	Budget	Biennium	Biennium
			FY 2010	FY 2010	FY 2010	FY 2011	FY 2011	FY 2011	Total	% Change
Dawson Community College	1,561,351	1,744,062	190,839	(30,204)	1,721,986	195,073	(38,841)	1,717,583	3,439,569	4.1%
Flathead Valley Community College	5,028,763	5,360,097	341,129	(15,071)	5,354,821	415,036	(59,970)	5,383,829	10,738,650	3.4%
Miles Community College	2,119,979	2,316,209	183,581	(23,334)	2,280,265	195,482	(35,194)	2,280,267	4,560,493	2.8%
Grand Total Program 04	8,710,093	9,420,368	715,549	(68,609)	9,357,033	805,591	(134,005)	9,381,679	18,738,712	3.4%

LFD ISSUE

Executive Budget includes pay plan costs in present law budget

The executive budget includes personal services costs that in previous biennia have been funded via the pay plan bill. For the 2011 biennium, the executive includes approximately \$98,400 general fund for employee merit and market salary adjustments. In the 2009 biennium, the legislature included funding for merit and market adjustments in the pay plan bill. The legislature may wish to discuss whether these costs for the university system should be budgeted in the same manner as other state agencies for the 2011 biennium, or if including these costs in the general appropriations act as recommended by the executive is acceptable.

**LFD
COMMENT**

The executive budget also includes a new proposal in the Montana Department of Labor and Industry budget, NP 102 – 21st Century Workforce, that would increase funds for workforce training at community colleges and enable quick response to rapid growth in high demand fields. The executive budget does not specify how much of this new proposal is earmarked for the community colleges.

Funding

The Community College Assistance program is funded entirely with general fund. The executive budget would increase the state appropriation for community colleges by 3.4 percent in the 2011 biennium from the 2009 biennium.

The community colleges use the higher education fund structure to account for revenues and expenditures, the same fund structure used by the educational units and higher education agencies. The state appropriation for the community colleges is a separate line item and is not part of the lump sum appropriation to the Montana University System educational units.

Enrollment Reversions

When the legislative appropriation for community colleges is established on the basis of an FTE-driven formula, as it was for the 2009 biennium, state statute requires that a portion of the legislative appropriation must be returned to the state if the community college does not meet the student FTE projections that were used to establish the appropriation. Section 17-7-142, MCA, allows the reversion to be based on the lower of the FTE resident enrollment projection and the actual FTE resident enrollment or the FTE resident enrollment projection and the prior three-year average FTE resident enrollment. HB 2 language further clarifies that the enrollment reversion calculation is a biennial calculation. The reversion, if any, is made at the end of the biennium.

Based upon resident FTE enrollment so far in the 2009 biennium, the Legislative Fiscal Division estimates that the total reversion for the 2009 biennium will be approximately \$360,000, or about 1.9 percent of the 2009 biennium legislative appropriation. The actual reversion amount, if any, will be calculated when the Spring Semester 2009 enrollments are reported.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor.

Present Law Adjustments										
Fiscal 2010						Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 401 - Audit Costs	0.00	40,751	0	0	40,751	0.00	0	0	0	0
DP 403 - Increase Funding to Cover the Costs of Present Law	0.00	674,798	0	0	674,798	0.00	805,591	0	0	805,591
Total Other Present Law Adjustments	0.00	\$715,549	\$0	\$0	\$715,549	0.00	\$805,591	\$0	\$0	\$805,591
Grand Total All Present Law Adjustments					\$715,549					\$805,591

Program Personal Services Narrative

No personal services are appropriated in this program.

DP 401 - Audit Costs - The executive budget would fund about one-half of the \$81,000 legislative audit costs for contract audits of FVCC, MCC, and DCC in the 2011 biennium. The audit costs would be allocated to the community colleges in the same ratio as they were funded last biennium with 32 percent or \$13,040 to DCC; 39 percent or \$15,893 to FVCC and 29 percent or \$11,818 to MCC.

DP 403 - Increase Funding to Cover the Costs of Present Law - The executive recommends base-plus funding for the community colleges, similar to the MUS educational units and agencies. In building these budgets, the executive assumed growth rates for particular funding sources per the following: local contributions increasing at 1.6 percent for each year of the biennium; a non-resident tuition increase of approximately 1.0 percent in FY 2010 and 1.1 percent in FY 2011; and statutory local government levy increases (15-10-420, MCA) at 1.6 percent in each year of the biennium. Additionally, the executive budget would fund the total resident student share, assumes a 0 percent resident student tuition increase, and a 100 percent fixed cost, 0 percent variable cost funding model. Under these assumptions, the executive budget recommends total state share of funding of 44.3 percent in FY 2010 and 44.4 percent in FY 2011, compared to the state share of actual base year funding of 42.6 percent in FY 2008.

**LFD
COMMENT**

Although the executive budget indicates it assumes a 0 percent resident student tuition increase, the executive has no authority to establish tuition rates. Tuition rates for the community colleges are established by the local board of trustees and approved by the Montana Board of Regents.

**LFD
ISSUE**
Policy Choice Needed on Funding Methodology

As previously noted, the executive budget developed its funding recommendation for the community colleges with a methodology that differs from the statutory formula.

The legislative funding formula uses actual expenditures from the base year as the cost of education and does not attempt to project inflationary and other cost increases for the 2011 biennium. When the formula is reapplied for the 2013 biennium, actual FY 2010 costs will be used which undoubtedly will include inflationary and pay increases (such as those funded separately in the pay plan bill) not contemplated by the formula. This biennial re-basing of the cost of education was the mechanism the legislature determined would meet the need for simplicity and transparency for this formula component.

Section 20-15-310, MCA, states that it is the intent of the legislature that all community college spending, other than from restricted funds, designated funds, or funds generated by an optional, voted levy, be governed by the provisions of this section of law and the state general appropriations act. This section of law requires the state general fund appropriation be determined with the legislative funding formula described in this narrative.

The legislature needs to determine which policies inherent in the alternative funding methodologies it wishes to adopt when it establishes the community colleges' state appropriation and whether these policies are consistent with the statutory funding formula requirements for the community colleges.

The policies inherent in the executive methodology are:

- o The cost of education should reflect actual base year costs and inflationary adjustments;
- o Enrollment levels do not impact costs; and
- o Non-state revenues are estimated first, then state appropriation requirements are calculated

The policies inherent in the legislative funding formula are

- o The cost of education should reflect actual base year costs which are rebased each biennium;
- o A portion of the community colleges' costs vary with the number of students served; and
- o The state share percentage is a legislative decision based upon available state revenue and the amount of funding the legislature determines that state government should support Montana resident students attending community colleges

**LFD
ISSUE***Legislature Facing Decision on Bitterroot Valley Community College District*

The 2009 Legislature will be hearing LC 0154, a joint resolution approving the establishment of the Bitterroot Valley Community College District in Ravalli County. This resolution was drafted upon the request of the Postsecondary Education Policy and Budget Subcommittee of the Education and Local Government Interim Committee, following the interim discussions with the district trustees-elect.

The Major Process Steps That Must be Achieved Before a New Community College District Can Operate

1. Title 20, Chapters 15 and 20 of the Montana Codes Annotated require the proposal for a new community college be presented to voters of the proposed community college district, and that the proposal pass.
2. Section 20-15-209, MCA requires that the Board of Regents certify the election results.
3. Section 20-15-209, MCA requires that the Board of Regents issue a recommendation to the legislature either for or against creation of a new community college district. This recommendation is non-binding.
4. The legislature passes a resolution authorizing the creation of a new community college district.
5. The legislature appropriates state funds for the new community college operation.

Status of Process to Establish Bitterroot Valley Community College District

1. Voters in the proposed Bitterroot Valley Community College district approved the proposal on May 8, 2007, with 52 percent for and 48 percent against the proposal.
2. The Board of Regents certified the election results on July 11, 2007.
3. The Board of Regents unanimously voted on December 4, 2008 to recommend to the 2009 Legislature that the proposed new community college district not be created. Additionally, the Board of Regents charged the Office of the Commissioner of Higher Education to work with the local community and consult with representatives from the PEPB to establish an innovative two-year education model in Ravalli County as an alternative to a new community college and to be prepared to discuss potential models with the 2009 Legislature.
4. The Postsecondary Education Policy and Budget Subcommittee approved a draft resolution approving formation of a new community college. This resolution, LC 0154, will be introduced in the 2009 Legislature.
5. Contingent upon passage of the resolution, the legislature could appropriate operational funds for the new community college during the 2009 session. This appropriation would likely be included in the general appropriations act (HB 2) for the 2011 biennium as well as the state pay plan bill (HB 13).

What is the Estimated State Cost for the Proposed Bitterroot Valley Community College?

The most recent cost estimates projected by the Bitterroot Valley Community College trustees-elect total \$4.0 million for the 2011 biennium, plus \$194,050 one-time-only costs to cover start-up costs incurred in FY 2009. If the legislature approves the resolution authorizing the formation of the new community college district, the total cost would be shared between the state, local community college district, and student tuition, similar to Montana's other community colleges.

Applying the legislative funding formula and the same assumptions used in the appropriation example presented earlier in this narrative, the state appropriation for the new community college would total \$1.8 million for the 2011 biennium. The \$194,050 one-time-only request and legislative audit costs would be in addition to the formula-generated amount.

Does the Executive Budget Include Funding for the Bitterroot Valley Community College?

The Bitterroot Valley Community College is not officially created unless and until the Montana Legislature approves the joint resolution creating formation of the community college district. Therefore, the executive budget did not include any funding recommendation for the Bitterroot Valley Community College.

LFD Budget Analysis – Updated for December 15, 2008 Executive Budget Revisions

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

5102 Commissioner Of Higher Education Revised Executive Budget Comparison Table					510209 Appropriation Distribution All SubPrograms			
R02 Budget Version	Base	Approp	Budgeted	Budgeted	Biennium	Biennium	Biennial	Biennial
Budget Item	FY 2008	FY 2009	FY 2010	FY 2011	FY 2008-09	FY 2010-11	Change	Percent
Personal Services	-	-	(1,947,315)	(1,949,395)	-	(3,896,710)	(3,896,710)	0.0%
Operating Expenses	-	-	(14,890)	(36,120)	-	(51,010)	(51,010)	0.0%
Transfers	165,546,241	177,229,073	179,204,164	179,733,755	342,775,314	358,937,919	16,162,605	4.7%
Total Costs	165,546,241	177,229,073	177,241,959	177,748,240	342,775,314	354,990,199	12,214,885	3.6%
General Fund	147,491,080	160,297,751	156,359,750	158,566,031	307,788,831	314,925,781	7,136,950	2.3%
State/other Special Rev. Funds	18,055,161	16,931,322	20,882,209	19,182,209	34,986,483	40,064,418	5,077,935	14.5%
Total Funds	165,546,241	177,229,073	177,241,959	177,748,240	342,775,314	354,990,199	12,214,885	3.6%

Program Description

The Appropriation Distribution Program in the Office of the Commissioner of Higher Education (OCHE) is the conduit through which state funds flow to: 1) the university system units and colleges of technology and other campus related appropriations; and 2) the research/public service agencies.

The program budget is organized in this section in the order listed below. Present law and new proposal adjustments together with explanations will be included with the following subprograms:

- Educational Units (Montana State University campuses and University of Montana campuses)
- Agricultural Experimental Station (AES)
- Extension Services (ES)
- Forestry and Conservation Experiment Station (FCES)
- Montana Bureau of Mines and Geology (Bureau)
- Fire Services Training School (FSTS)
- Miscellaneous Subprograms

Program Highlights

Appropriation Distribution Program Major Budget Highlights	
◆	The executive increases state funding for the educational units and research/public service agencies \$12.2 million in the 2011 biennium from the 2009 biennium, primarily for present law cost increase through FY 2009
◆	The College Affordability Plan is not continued in the 2011 biennium
Major LFD Issues	
◆	Significant funding policy change proposed for MUS educational units and research/public service agencies may impact future tuition levels and/or service delivery
◆	The Governor's proposed revisions for the MUS educational units and research/public service agencies fund some required present law adjustments

- at historically low levels, or not at all
- ◆ Given that the executive budget proposal is based upon public policy decisions, rather than statutory formulas, the legislature may want to consider other funding levels to address concerns about access and affordability of higher education

Program Narrative

Higher Education Funding

Determining the state appropriation for higher education in Montana is unlike any other state agency due to the diverse nature of funds that support the university system, the governance authority of the Board of Regents, and the fund structure used by the system. This section of the budget analysis narrative provides a brief background on higher education funding in Montana.

University Funds

The MUS is funded from several sources, including the state general fund and statewide six-mill levy, tuition and fees, federal and private grants, service fees, service operations, and other sources. Using national accounting standards and state statute, the university system classifies its revenue and expenditures into various fund types.

State funds appropriated for general operations and tuition are classified as “current unrestricted” funds. Revenues from state appropriations and tuition constitute the primary revenues for the current unrestricted fund at university educational units. The state funds appropriated to the university system for general operations (i.e. HB 2, pay plan) are deposited to the current unrestricted fund at each unit.

Other fund types include current restricted (federal grants), current designated (service fees), current auxiliary (service operations such as dormitories), student loan funds, endowment funds, plant funds, and agency funds (fiduciary).

Budget Approval

When the legislature provides an appropriation of state funds for the university system, the appropriation authority extends only to the state funds. State statute authorizes the MUS to expend state funds appropriated in the general appropriations act contingent upon regent approval of a comprehensive operating budget by October 1 of each fiscal year. The comprehensive operating budget approved by the regents each year includes the current unrestricted fund and the other funds listed above.

State’s Role

While the Montana Constitution grants governance authority to the Board of Regents, the power to appropriate state funds remains with the legislature. With this “power of the purse” comes the authority to attach policy decisions and accountability measures to the funding.

State funds are an important component of university funding because:

- o State general fund support is the second largest source of current unrestricted revenue for the MUS, after tuition
- o General fund appropriations in House Bill 2 provide the vehicle with which the legislature may have a public policy impact upon the MUS
- o Montana Supreme Court decisions say that the Regents’ power to govern must be harmonized with the legislature’s power to appropriate, set public policy, and ensure accountability of state revenue and expenditures

State Appropriations

The legislature considers many factors to develop the MUS appropriation including:

- o Projected student enrollment
- o Base year actual expenditures and funding

- o State funds available
- o Legislative priorities
- o Governor's recommendation
- o Board of Regents' requests

Since the 1995 legislative session, the legislature has combined the appropriation for the six four-year campuses, five colleges of technology, and most of the Office of the Commissioner of Higher Education into a single, biennial lump-sum appropriation. Appropriations for the remaining units are contained in line items in the general appropriations act (House Bill 2). Long range building funds are appropriated in House Bill 5 for capital projects. The legislature also appropriates general fund to support the state pay plan that is applied to MUS employees.

State Percent Share

The state percent share is that proportion of the current unrestricted fund for the university educational units that is funded by state funds (general fund and six mill levy revenue). In FY 1988 the state percent share of the university educational units' budget was 74 percent while in FY 2008 the state percent share was 41 percent. This percentage is important as part of the university system budget because historically (the 2009 biennium being a recent exception) the actual state percent share level from the base year budget is used to drive state funding levels to support present law programs in the next budget. In the 2009 biennium, the legislature approved the Governor's College Affordability Plan proposal that funded budget increases based in the proportion of Montana resident students to total enrollment and resulted in zero tuition rate increases for Montana students in FY 2008 and FY 2009.

Tuition Revenue

The Board of Regents is the sole authority in setting the tuition rates for the MUS. Tuition is not controlled or appropriated by the legislature. Tuition revenue fills the "gap" between the approved expenditure budget for educational units and state funds appropriated by the legislature (general fund and six mill levy revenue).

Proposed Executive Budget

The 2011 biennium proposed executive budget would increase state funding to the Montana University System educational agencies and research/public service agencies 3.6 percent from the 2009 biennium. Biennial budget changes would range from a 2.4 percent reduction at the Agricultural Experiment Station to a 25.0 percent increase for the Motorcycle Safety program at Montana State University-Northern.

The executive budget holds resident student enrollment projections at the same level (26,756) as last biennium's projection. No budget adjustment is included in the executive budget for enrollment.

The figure below presents historical actual student FTE enrollment since FY 1998 and budgeted student FTE enrollment for the 2011 biennium for the Montana University System educational units.

Montana University System Student FTE Enrollment					
Fiscal 1998 - Fiscal 2011					
Fiscal Year	Resident Student FTE	Annual % Change	Change from Base	Total Student FTE	Resident as a % of Total
FY 98 Actual	24,323			31,227	77.9%
FY 99 Actual	24,436	0.5%		31,383	77.9%
FY 00 Actual	24,605	0.7%		31,498	78.1%
FY 01 Actual	24,851	1.0%		31,566	78.7%
FY 02 Actual	25,565	2.9%		32,090	79.7%
FY 03 Actual	26,225	2.6%		32,673	80.3%
FY 04 Actual	26,828	2.3%		33,181	80.9%
FY 05 Actual	26,321	-1.9%		32,763	80.3%
FY 06 Actual	26,422	0.4%		33,089	79.9%
FY 07 Actual	26,298	-0.5%		33,138	79.4%
FY 08 Actual (Base)	26,278	-0.1%		33,349	78.8%
FY 09 Projected	26,565	1.1%		33,743	78.7%
FY 10 Budgeted	26,756		478	34,049	78.6%
FY 11 Budgeted	26,756		478	34,147	78.4%
Excludes Community Colleges					
FY10 & FY 11 Resident Student FTE budgeted same as the number budgeted for 2009 Biennium					

No College Affordability Plan Proposal for the 2011 Biennium

The executive budget does not include funding to continue the College Affordability Plan (CAP) into the 2011 biennium. In the 2009 biennium, the Governor and the Board of Regents agreed upon an overall present law expenditure budget for the university educational units and the executive proposed a sufficient level of funding for that present law budget that eliminated the need for resident tuition increases each year of the 2009 biennium. The key component of the CAP present law budget was that the state percent share of funding the present law adjustments and the executive pay plan was 84.7 percent (compared to approximately 39 percent in the 2007 biennium) each year of the 2009 biennium. This new level of 84.7 percent was the ratio of Montana resident students and Western Undergraduate Exchange (WUE) students to total students.

The 2007 Legislature approved the executive proposal and the Board of Regents did not increase resident tuition rates at the Montana University System educational units in FY 2008 and FY 2009.

For the 2011 biennium, there is no CAP proposal and no agreement to keep resident tuition rates at the FY 2007 level. However, there were extensive negotiations between the executive and the Board of Regents to agree upon a present law expenditure budget for the educational units and the research/public service agencies in the 2011 biennium for proposal to the 2009 Legislature. The present law expenditure budget agreed upon between the executive and the regents totals \$816.8 million current unrestricted funds in the 2011 biennium, a \$39.0 million or 5.0 percent increase from the 2009 biennium.

How the Executive Proposes to Fund the State Share of the Present Law Expenditure Budget in the 2011 Biennium

Original Executive Budget

The original executive budget funded the proposed present law budget increase in two steps (see DP 902 and DP 903) because the executive funded a portion of the present law budget increase, from FY 2008 to FY 2009, at the state percent share authorized by the 2007 Legislature and the remaining portion, from FY 2009 to FY 2011, using the state percent share concept used in previous biennia.

The first step (DP 902), which added the state share of present law cost increases from FY 2008 to FY 2009, continued the CAP funding policy recommended by the Governor for the 2009 biennium of funding present law adjustments on the basis of Montana resident students served to total students served. The state share percentage used in the first step was 84.7 percent.

The second step (DP 903), which added the state share of present law cost increases from FY 2009 through FY 2011, used the historical policy of funding present law adjustments on the basis of the proportion of the current unrestricted fund for the university educational units in the base year that is funded by state funds. The overall average state share percentage used in this second step was 42 percent.

Revised Executive Budget

The revised executive budget, through a series of revisions, eliminates a significant portion of the state funds proposed in DP 903 in the original budget. The impact of the proposed revisions in the executive budget is to fund the present law adjustments for the educational units in FY 2010 and FY 2011 at an overall average of 5.5 percent each year. The table below summarizes the revisions in the executive's December 15th budget proposal. Refer to the LFD Budget Analysis Addendum for the narrative describing the revisions.

Appropriation Distribution to Educational Units and Agencies Montana University System Executive Budget Revisions Summary				
Item	Base FY 2008	Appropriated FY 2009	Executive Budget FY 2010	Executive Budget FY 2011
State Funds -- Original Executive Budget	165,546,241	177,229,072	182,362,771	184,116,853
Executive Budget Revisions:				
PL 7101 - Fuel Inflation Reduction			(15,886)	(37,263)
NP 920 - PBS Restore One-Time-Funding			(200,000)	(200,000)
NP 950 - Reduce State Funds Ed Units			(2,278,514)	(3,056,093)
NP 960 - Remove Admin Assessment Increase			(237,342)	(309,823)
NP 970 - Remove Present Law Pay Increases			(441,755)	(816,039)
NP 8101 - Increase Vacancy Savings to 7%			(1,947,315)	(1,949,395)
Subtotal -- Revisions			(5,120,812)	(6,368,613)
State Funds -- Revised Executive Budget	165,546,241	177,229,072	177,241,959	177,748,240

Budget Gap

The difference between the present law expenditures and the state funding share made available to fund the expenditures is a budget gap. In the proposed executive budget, the budget gap for the educational units and research public service agencies totals \$33.5 million. Most of this gap, \$31.1 million, relates to the educational units.

The regents would have three primary choices to address the budget gap at the educational units: increase tuition, reduce expenditures, or a combination of both. If the budget gap was addressed entirely through tuition rate increases from the FY 2009 level, on a system wide basis, tuition rates for resident and nonresident students would increase approximately 4.6 percent each year of the 2011 biennium. If the budget gap was addressed entirely through expenditure reductions, it is possible that service reductions would be necessary. (Note: these calculations exclude pay plan costs and funding.)

Figure 1 illustrates the recent resident tuition and fee increases for 4 year, 2 year, and community colleges in Montana. The increase between FY 2007 and FY 2008 for the 4-year and 2-year tuition rates is attributable to mandatory fee increases. Tuition rates did not increase at the 4-year and 2-year units. However, both tuition and mandatory fees increased at community colleges between FY 2007 and FY 2008. The community colleges were not part of the CAP program in the 2009 biennium.

Figure 1 Montana University System Mandatory Tuition and Fee Rates for the Educational Units and Community Colleges - Montana Resident Students (1998 - 2008)			
Fiscal Year	Four-Year Campuses	Two-Year Campuses	Community Colleges
1998	\$2,629	\$2,049	\$1,423
1999	2,834	2,228	1,473
2000	2,952	2,274	1,605
2001	3,062	2,288	1,619
2002	3,428	2,522	1,797
2003	3,956	2,670	1,891
2004	4,124	2,710	2,122
2005	4,500	2,932	2,318
2006	4,942	3,036	2,502
2007	5,331	3,137	2,744
2008	5,404	3,181	3,079
Annual Growth Rate	7.5%	4.5%	8.0%
Total Growth 1998-2008	105.6%	55.2%	116.4%

Source: Montana University System, Inventory and Validation of Fees Report (1997-2007) 2008, OCHE [Units use weighted averages...Community Colleges use averages]

LFD ISSUE

Significant Funding Policy Change

The proposed executive budget includes a significant funding policy change in the 2011 biennium compared to the 2009 biennium. In the 2009 biennium, present law adjustments and other significant costs for the educational units were funded almost 85 percent with state funds, which represented the proportion of Montana resident students and students participating in the Western Undergraduate Exchange program to total students served at the educational units. The 2011 biennium revised executive budget includes state funds for costs beyond the FY 2009 level at approximately 5.5 percent of total projected costs (or less than two percent when the research/public service agencies are included). The impact of this funding policy change will likely be student tuition rate increases and/or expenditure reductions. While the Board of Regents has the final responsibility and authority to establish expenditure budgets and tuition rates for the Montana University System, the legislature has the final responsibility and authority to set the state appropriation and state fiscal policy in regard to the Montana University System.

There is no constitutional or statutory requirement for the state to fund the Montana University System at a specific amount. The decision of how much the state will fund the university system is strictly a policy decision of the legislature.

In order to evaluate the proposed executive budget, the legislature may want to discuss the impact this funding policy change may have on student tuition and budget levels with the Board of Regents and/or the Commissioner of Higher Education.

**LFD
ISSUE****Executive Budget Reduces/Eliminates State Funding for Some Required 2011 Biennium Present Law Adjustments**

The revised executive budget reduces state funds (general fund and state special revenue) for the Montana University System by \$13.0 million in the 2011 biennium compared to the original executive budget proposal. The majority of the reduction is in the distribution of state funds to the educational units and research/public service agencies.

The executive budget does bring the FY 2008 base up to the FY 2009 level in DP 902. However, the revised executive budget reduces state funding for present law adjustments at the educational units and research/public service agencies, on average, to less than two percent of the projected cost of the present law adjustments for the 2011 biennium above the FY 2009 level. There are present law costs that will continue into the 2011 biennium and will have to be paid either from tuition increases or from expenditure reductions in other areas. One cost that will continue and must be paid is the annualization of the FY 2009 pay plan that was authorized by the 2007 Legislature. Typically this cost, which is the last quarter of the pay plan cost from the previous biennium, is funded through the statewide present law adjustment. For the educational units and agencies, this cost is approximately \$2.3 million each year (total funds). Using the state percent share ratio proposed in the original executive budget, 42 percent, the state would have funded about \$1.0 million per year of this cost in FY 2010 and FY 2011. However, in the revised executive budget, the state percent share for costs above the FY 2009 level is less than two percent. As a result, if the executive budget is adopted by the legislature as proposed, the annualized pay plan costs will need to be paid either from tuition increases or expenditure reductions in other areas.

In order to evaluate the proposed executive budget, the legislature may want to discuss the impact this funding policy change may have on student tuition and budget levels with the Board of Regents and/or the Commissioner of Higher Education.

**LFD
ISSUE****Evaluating College Affordability**

The goal of promoting education affordability for Montana resident students was addressed in the 2009 biennium by the College Affordability Plan (CAP) that resulted in a resident tuition rate freeze for both years of the 2009 biennium. The executive budget does not continue the CAP into the 2011 biennium. One potential impact of discontinuing the CAP is that tuition rates will increase in the 2011 biennium. The legislature may want to monitor the measurable objectives identified in the Board of Regents 2008 Strategic Plan for this goal, including:

- o Specific tuition guidelines
- o State support as a percentage of total personal income
- o Tuition as a percentage of median household income

College affordability may be impacting current and prospective students in the Montana University System. Consider the following statistics from the Montana Board of Regents 2008 Strategic Plan:

- o 74 percent of 4-year freshmen return for the sophomore year, but only 41 percent graduate within 6 years
- o 77 percent of first-time students entering 4-year institutions and 79 percent of first-time students entering 2-year institutions receive financial aid (including loans) compared to 72 percent and 62 percent, respectively, in other WICHE states
- o The average state funded need-based aid per student in Montana in 2006-07 was \$124 compared to the regional average of \$235
- o The average unmet need (cost of attendance less the expected family contribution and average aid award) of students receiving Pell grants in Montana in 2006-07 was \$10,197

Put in a simple way, college affordability is when the cost of attendance is less than or equal to the resources available to

pay the price (cost of attendance). Tuition is a part of the “cost of attendance” calculation that colleges and universities make annually for financial aid decision purposes. The cost of attendance includes tuition and mandatory fees, books and supplies, room and board, and personal or transportation costs. In Montana, the tuition portion of the total cost of attendance for a resident undergraduate student ranged from 25 percent to 34 percent of the total cost of attendance in academic year 2005-06. Therefore, when tuition rates rise, the cost of attendance rises, and college affordability is impacted.

If the legislature is concerned about college affordability, it may want to consider mitigating tuition rate increases for Montana resident students. However, the legislature may want to consider other factors impacting college affordability as well as, or instead of, tuition.

Some examples of other factors impacting college affordability include, but are not limited to:

- o Academically prepared students entering the postsecondary system could reduce the need for remedial courses, thereby reducing the time to graduation for some students and possibly improving retention rates for other students
- o Reducing the length of time to graduation, for example from five years to four years, reduces the overall cost to the student/family by 20 percent
- o Completing college courses while still in high school (dual enrollment) reduces the overall cost of attendance by earning college credit prior to enrolling in a postsecondary institution
- o Increasing the amount of student financial aid or scholarships addresses the “resources available” side of the college affordability equation

The Montana Board of Regents 2008 Strategic Plan addresses these factors collectively in the first overarching goal of the plan, which is to increase the educational attainment of Montanans. The plan also describes strategic initiatives the MUS will undertake to achieve each goal and measurable objectives to evaluate progress toward each goal.

If the legislature is concerned about college affordability but is uncertain about the most effective way to invest limited resources, it may want to discuss these and other factors that affect college affordability with the Regents, the Commissioner of Higher Education, and MUS leadership to evaluate the current strategies used to improve affordability and identify the strategies that are most effective.

Funding

The following table shows program funding, by source, for the 2009 biennium adjusted base and the 2011 biennium as recommended by the Governor in the December 15, 2008 revised executive budget.

Program Funding Table – December 15, 2008						
Appropriation Distribution						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	\$147,491,080	89.09%	\$156,359,750	88.22%	\$158,566,031	89.21%
01100 General Fund	147,491,080	89.09%	156,359,750	88.22%	158,566,031	89.21%
02000	18,055,161	10.91%	20,882,209	11.78%	19,182,209	10.79%
02289 Bureau Of Mines Groundwater	666,000	0.40%	666,000	0.38%	666,000	0.37%
02443 University Millage	17,065,323	10.31%	19,765,323	11.15%	18,065,323	10.16%
02576 Natural Resources Operations Ssr	103,838	0.06%	175,886	0.10%	175,886	0.10%
02944 Motorcycle Safety Training	<u>220,000</u>	<u>0.13%</u>	<u>275,000</u>	<u>0.16%</u>	<u>275,000</u>	<u>0.15%</u>
Grand Total	\$165,546,241	100.00%	\$177,241,959	100.00%	\$177,748,240	100.00%

Six-Mill Property Tax Levy

This property tax levy is authorized at 15-10-107, MCA, and 20-25-423, MCA. The revised executive budget replaces \$3.7 million of general fund with six mill levy revenue in the 2011 biennium. Total six mill levy revenue included in the revised executive budget totals \$37.8 million in the 2011 biennium.

**LFD
COMMENT**

The revised executive budget uses the six-mill levy revenue estimate contained in the original HJR 2 which reflects the Revenue and Transportation Interim Committee revenue estimates of November 2008. Because of the deteriorating economic conditions, the Legislative Fiscal Division is revising the November 2008 revenue estimates and the six-mill levy revenue estimate may be impacted.

If revenue projections for the six-mill levy funding are not met such that the appropriation would exceed the available revenue, the university system would not receive funding for the amount that was not met.

It should be noted that the six-mill levy revenue is restricted by law for appropriation to the university educational units and may not be appropriated for any other use.

Natural Resource Operations State Special Revenue Account

The 2007 Legislature created the natural resource operations state special revenue account and allocated revenues from the Resource Indemnity Trust Fund, metal mines license tax proceeds, and oil and natural gas production taxes to the account. Appropriations were authorized by the 2007 Legislature from this account for the Department of Natural Resources and Conservation (DNRC), the Montana Bureau of Mines, and other non-DNRC agencies. This account is authorized at 15-38-301, MCA.

The natural resource operations state special revenue is used at the Montana Bureau of Mines for general program support. The 2007 Legislature authorized this funding to support present law personal services cost increases and operational support in the 2009 biennium.

**LFD
ISSUE****Natural Resource Operations Account is Over-Allocated in the Executive Budget**

For the 2011 biennium, the executive budget expenditure recommendation exceeds the projected revenue available in this account by the end of the biennium. The legislature may wish to reduce expenditures in all related program budgets proportionately or selectively reduce program expenditures to balance the projected revenues with approved expenditures. The joint appropriation subcommittees on education and natural resources may wish to consult before making a final appropriation decision on this state special revenue account.

Natural Resources Operations State Special Revenue Executive Budget Request-December 15, 2008 Revision Fund Analysis FY 2008 - FY 2011				
	Actual FY 2008	Appropriated FY 2009	Executive Request	
			FY 2010	FY 2011
Beginning Balance	\$4,536,375	\$4,178,494	\$1,681,974	\$338,044
Revenues	4,407,536	3,820,350	2,967,412	3,411,553
Total Funds Available	\$8,943,911	\$7,998,844	\$4,649,386	\$3,749,597
<u>Non-DNRC Expenditures</u>				
Water Court	\$905,805	\$951,711	\$1,029,268	\$1,034,871
Mt Bureau of Mines & Geology	103,838	175,886	175,886	175,886
State Library Commission	251,401	251,436	(5)	(5)
Department of Environmental Quality	<u>1,662,001</u>	<u>2,768,835</u>	<u>2,097,905</u>	<u>2,105,536</u>
Total Non-DNRC Expenditures	\$2,923,045	\$4,147,868	\$3,303,054	\$3,316,288
<u>DNRC Expenditures</u>				
Centralized Services Division	\$203,934	\$440,247	(\$16)	(\$18)
Conservation & Resource Development Division	1,328,062	1,400,871	682,670	655,032
Water Resources Division	210,376	227,884	225,745	225,942
Forestry Division	100,000	100,000	99,889	99,873
Total DNRC Expenditures	\$1,842,372	\$2,169,002	\$1,008,288	\$980,829
Total Expenditures	\$4,765,417	\$6,316,870	\$4,311,342	\$4,297,117
Potential Pay Plan Impact			\$0	\$0
Ending Fund Balance	<u>\$4,178,494</u>	<u>\$1,681,974</u>	<u>\$338,044</u>	<u>(\$547,520)</u>

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	147,491,080	147,491,080	294,982,160	89.93%	165,546,241	165,546,241	331,092,482	90.34%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	15,689,482	16,943,564	32,633,046	9.95%	16,616,530	18,370,612	34,987,142	9.55%
New Proposals	200,000	200,000	400,000	0.12%	200,000	200,000	400,000	0.11%
Total Budget	\$163,380,562	\$164,634,644	\$328,015,206		\$182,362,771	\$184,116,853	\$366,479,624	

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the Governor in the November 15, 2008 budget.

Present Law Adjustments										
	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 902 - Adjust Funding to the 2009 Level of State Support	0.00	11,624,835	72,048	0	11,696,883	0.00	11,624,835	72,048	0	11,696,883
DP 903 - Fund Present Law to 2011 Biennium Level	0.00	4,864,647	0	0	4,864,647	0.00	6,618,729	0	0	6,618,729
DP 930 - General Fund Replacement with Six Mill Levy Funds	0.00	(800,000)	800,000	0	0	0.00	(1,300,000)	1,300,000	0	0
DP 9015 - Motorcycle Safety (Northern)	0.00	0	55,000	0	55,000	0.00	0	55,000	0	55,000
Total Other Present Law Adjustments	0.00	\$15,689,482	\$927,048	\$0	\$16,616,530	0.00	\$16,943,564	\$1,427,048	\$0	\$18,370,612
Grand Total All Present Law Adjustments					\$16,616,530					\$18,370,612

Program Personal Services Narrative

No personal services are appropriated in this program.

The present law adjustments and new proposals contained in the executive budget for the educational units and public service and research agencies are summarized here. Specific information relating to present law adjustments and new proposals contained in the executive budget are discussed in this narrative at the subprogram level that follows.

DP 902 - Adjust Funding to the 2009 Level of State Support - The executive budget adjusts the base level of funding to the 2009 level of state support as the first step in funding educational units and the agencies. This increase includes such items as annualization of the 2009 pay-plan, faculty and staff merit and promotion increases, new space, IT fixed costs and operating costs.

DP 903 - Fund Present Law to 2011 Biennium Level - The executive budget would add present law funding of state support at the percentage funding in the base year to fund the educational units and the agencies. The percentage funding was taken from the total ongoing state share in FY 2008 and excluded statutory appropriations.

DP 930 - General Fund Replacement with Six Mill Levy Funds - The executive budget would replace general fund with six-mill levy state special revenue at the level anticipated to be available net of anticipated reappraisal mitigation.

DP 9015 - Motorcycle Safety (Northern) - The executive budget would add \$55,000 per year for the Montana motorcycle safety program for replacement of older motorcycles, maintenance on existing motorcycles, increased marketing

expenses, and increased operating expenses. The program is funded from fees collected by the Department of Justice at the time motorcycles are registered and fees charged to program participants.

New Proposals

New Proposals										
Program	FTE	-----Fiscal 2010-----				-----Fiscal 2011-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 920 - PBS Restore One-Time Funding to be Ongoing										
09	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
Total	0.00	\$200,000	\$0	\$0	\$200,000	0.00	\$200,000	\$0	\$0	\$200,000

DP 920 - PBS Restore One-Time Funding to be Ongoing - The executive budget would restore the one-time-only \$400,000 general fund biennial appropriation approved by the 2007 Legislature for the Public Broadcast System (PBS) satellite delivery and make the appropriation part of the ongoing base.